

**Office of the Secretary of State**

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Secretary of State

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**Audits Division**

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February 6, 2008

Max Williams, Director  
Department of Corrections  
2575 Center Street NE  
Salem, Oregon 97301-4667

Dear Mr. Williams:

We have completed the statewide single audit that included selected financial accounts at Department of Corrections (department) for the year ended June 30, 2007.

This audit work was not a comprehensive audit of the department. Instead, the audit work performed allowed us, in part, to achieve the following objectives: (1) express an opinion on whether the financial statements contained in the State of Oregon's Comprehensive Annual Financial Report were fairly presented, in all material respects, in conformity with generally accepted accounting principles; (2) determine whether the state's internal controls provided reasonable assurance of proper accounting, financial reporting, and legal compliance of transactions; and (3) determine whether the state has complied with applicable legal requirements that may have a direct and material effect on the state's financial statements.

In planning and performing our audit of the selected financial accounts at the department as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements of the State of Oregon, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

We audited the following accounts and transactions at the department to determine their fair presentation in accordance with generally accepted accounting principles in relation to the statewide financial statements.

<u>SFMA Account</u>	<u>Description</u>	<u>Audit Amount</u>
<u>General Fund (GAAP Fund 0001)</u>		
3111	Regular Employees	\$170,407,542
3210	Public Employees Retirement Contribution	27,044,576
3212	Pension Bond Assessment	11,489,305
3221	Social Security Taxes	14,874,994
3263	Medical, Dental, Life Insurance	44,365,899

3264	Medical, Dental, Life Insurance-Agency Subsidy	476,089
4XXX	Various services and supplies accounts	111,107,759
6300	Distributions to Counties	89,210,279

Community Protection Fund (GAAP Fund 1103)

3111	Regular Employees	\$2,785,532
3210	Public Employees Retirement Contribution	502,354
3212	Pension Bond Assessment	216,011
3221	Social Security Taxes	283,960
3263	Medical, Dental, Life Insurance	703,379
3264	Medical, Dental, Life Insurance-Agency Subsidy	6,437

Government-Wide Fund (GAAP Fund 8500)

0852	Building and Building Improvements	\$580,260,770
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Our consideration of internal control was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control. As discussed below, we identified a matter that warrants management's attention.

Payroll

The department processes payroll expenditures through the Oregon State Payroll Application hosted by the Department of Administrative Services. Specific internal control requirements and procedures for processing payroll expenditures are outlined in the *Oregon Accounting Manual*. These internal controls are designed to ensure that important payroll functions are appropriately separated and that payroll expenditures are authorized, complete, and accurate prior to payment. They also are designed to lessen the risk that errors or fraudulent transactions will be introduced into the system and go undetected.

The department had not fully complied with *Oregon Accounting Manual* requirements for providing sufficient internal control over payroll transactions. Specific areas needing attention include the following:

- Individuals with the ability to enter transactions into the automated payroll system also received and distributed payroll checks and stubs;
- Gross pay adjustment reports were not always reviewed before the release of pay, and evidence of review did not exist for five of 12 reports we examined;
- Twelve of 39 timesheets we reviewed (28 percent) were not signed by the employee; and
- Eighteen months elapsed before payroll staff initiated a pay differential for one employee.

**We recommend** the department fully comply with internal controls over payroll as outlined in the *Oregon Accounting Manual*. Specifically, department management should ensure that important payroll functions are appropriately separated, gross pay adjustment reports are reviewed and reviewed timely, timesheets are signed by employees, and pay adjustments are entered timely into the payroll system.

Max Williams, Director  
Department of Corrections  
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This matter does not require a written response. We will follow up on the department's progress in addressing this issue during the next fiscal year audit.

This communication is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than the specified parties.

Should you have any questions, please contact Michelle Rock or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

V. Dale Bond, CPA, CISA, CFE  
Audit Manager

VDB:brk

cc: Tami Dohrman, Fiscal Services Division Administrator  
Jamie Breyman, Internal Audit Administrator  
Kris Kautz, Interim Director, Department of Administrative Services